



Barriers to Private Sector Engagement

PHOTO CREDIT: Replenish Africa Initiative (RAIN), Rwanda, 2018.

Background

Numerous contextual details – project-level, cultural, demographic, geographic, institutional, economic, and political – influence rural water provision, private sector engagement and rural water governance.

Significant considerations include economies of scale, requirements for short-term and/or long-term profit, population size and density, convenience of alternative water sources, community resistance to viewing water as a commodity, sense of community ownership, comfort and experience with different technologies, existing depth and strength of the private sector, coordination within the water sector, degree of political and fiscal decentralization strength and independence of oversight bodies, and political patronage and clientelism. Here we focus on barriers to private sector engagement and governance challenges.

Scale



The scale of a rural water project or its water service provider can affect the business viability of water provision and its governance. In terms of business viability, small-scale projects can be very hard to sustain due to very small profit margins. As a result, small-scale projects need to be clustered to generate sufficient revenue for sustainable provision. Similar economies of scale also apply to governance, as the costs of institutions for oversight and communication, as well as sourcing spare parts and qualified technicians, are too high if applied to single, small-scaled systems.

Provider Type



The type of service provider is likely to shape the success of a project or scheme. For example, small private entrepreneurs may need a financial return sooner, over a shorter time horizon, than do larger financiers. In addition, some water service providers, such as social enterprises or non-

governmental organizations, may never need a return and seek instead to simply break even or minimize the degree of subsidization.

Demographics



The demographic characteristics of a service area are likely to shape the viability of commercial water provision. In particular, the overall population size and the population density will determine water demand and hence potential

revenue collection, which is an important determinant of commercial viability (Oxfam, 2018). In addition, these factors also shape the marginal costs of maintenance and operations.

Cultural Beliefs



Cultural beliefs and practices are important for shaping the success of rural water services. One issue that was frequently expressed in all three countries of study was resistance to treating water as a commodity. In particular, many water users believe that water is given from God and communally owned, or a basic human right, and can therefore not be treated like other goods. Water service providers and others in the water sector often emphasize that one is paying for the service of delivering or treating the water, and not the water itself.

Another cultural factor that shapes the success of rural water services is the importance of ownership. Communities that have a sense of ownership over the water systems

are repeatedly presented in both individual interviews and focus groups as significantly more likely to experience success.

The degree of comfort and experience with technology affects the ability to employ new technologies to improve service and governance, such as electronic payment or electronic communication platforms.

For example, mobile money is much more widely used and accessible for Kenyans than Tanzanians or Ugandans (World Bank, N.D.). The penetration of mobile phones and the mobile money platform mPesa into rural areas makes the adoption of electronic technologies for water services much more feasible.



Geography and Hydrology

The geography and hydrology of a service area have implications for the commercial viability of rural water services. The water source used for a particular scheme dramatically affects the costs of provision. Gravity-fed systems are much more affordable than systems that must pump water from deep underground, especially where water pumps are diesel

powered. Connecting pumps to the electricity grid or solar panels has the potential to reduce pumping costs considerably, but gravity-fed systems are always more commercially viable. The existence of alternative water sources, such as streams, is a key factor which can reduce demand for commercial water services.



Economic Factors

Several economic factors influence the potential for commercial water services in rural areas. First, overall levels of economic development are crucial, with wealthier countries and regions better able to sustain commercial water businesses (Koestler, 2008). More robust economic activities also generate increased demand for water: for example, commercial agriculture or luxury services such as car washes.

Second, the depth and strength of the private sector will also shape the potential for private sector engagement with water. In general, the private sector is more viable in stronger economies.

A related but distinct economic factor is the nature of the

relationship between private sector businesses and government. In particular, when government officials have backgrounds in the private sector, they are more likely to understand the policies and institutions that can facilitate the successful engagement of the private sector in service provision.

A final economic factor is the ability to couple rural water provision with other sectors. Because much of the research suggests that rural water services will not be profitable based on current water demands (Oxfam, 2018), water provision will only be commercially viable in many rural areas if demand for water can be increased through its use in economically productive ways.



Institutional Frameworks

Institutional and legal frameworks influence the success of private sector engagement in rural water services. Countries vary in the degree to which the commercialization of water services is institutionalized. The more willing a government is to promote private operators

(Valfrey-Visser et al., 2006), provide legislation, policies, and build a regulatory environment (Adank et al 2011; van der Byl and Carter 2018), the more success a country will have in commercialization of their water provision.

Beyond legal frameworks, historical legacies affect the institutionalization of commercial operations. For example, a history of users paying for water is an important determinant of commercial success. While only 26 percent of rural Tanzanians have paid for water in the past,

this number rises to 31 percent in Kenya and 37 percent in Uganda (Foster, 2012).

The degree of political and fiscal decentralization affects rural water services in several ways. In theory, decentralization is meant to bring decision-making closer to the

people being served and improve services as a result. However, in some ways decentralization could complicate rural water services. For example, decentralization may result in inefficiencies, with multiple levels of government now having to coordinate their actions.

Political Factors

There are three means through which politicians can undermine the potential for private engagement in rural water services.



Patronage

Political patronage and clientelism may interfere with the functioning of private operators and the institutions meant to regulate them. For example, private contracts may be awarded to political loyalists or to shore up political support in other ways, rather than based on merit and capacity.



Actors

Political actors may undermine the commercial viability of private sector engagement.

In all three countries, we were informed that politicians undermine water businesses by promising rural residents they will provide them with free or lower cost water. The World Bank has noted that commercial water services will only be viable if private actors can be guaranteed that elected officials will not legislate prices lower than those needed for viability to increase their vote share (World Bank, 2006).



Appropriation

The risk of political appropriation can deter engagement by private actors. Just as political bailouts undermine good performance by protecting from losses, appropriation of successful enterprises undermines good performance by reducing expected gains (World Bank, 2006). Where there is such a risk of appropriation, either private actors will not enter the sector, or they will have disincentives to grow their business or generate profits for fear of attracting government attention.

Citations

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